U S WEST, Inc.
Suite 700
1020 Nineteenth Street, NW
Washington, DC 20036
202 429-3133

Glenn Brown
Executive Director-
Public Policy

EX PARTE OR LATE FILED

USWEST

DOCKET FILE COPY ORIGINAL

September 4, 1996

RECEIVED

SEP 4 - 1996

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

William F. Caton, Acting Secretary
Federal Communications Commission
1919 M Street N.W., Room 222
Washington, D.C. 20554

RE: CC Docket 96-45

Dear Mr. Caton:

On August 29, 1996 Scott McClellan, Vice President- Public Policy; Barb Allgaier, Manager - Public Policy; Peter Copeland, Manager - Public Policy and the undersigned met in Pierre, South Dakota with Laska Schoenfelder, Commissioner, and Charles Bolle, staff member of the Federal/State Joint Board on Universal Service. The Attached charts were used during this discussion.

In accordance with Commissioner Rule 1.1206(a)(1), two copies of the letter are being filed with you for inclusion in the public record. Acknowledgment and date of receipt are requested. A copy of this transmittal letter is provided for this purpose. Please contact me if you have questions.

Sincerely,

No. of Copies rec'd 0+1
List ABCDE

UNIVERSAL SERVICE

Scott McClellan
Barb Allgaier
Glenn Brown
Peter Copeland

August 29, 1996

Uniqueness of Our Territory

- U S WEST serves the largest geographical area of any RBOC
- U S WEST is one of the smallest RBOCs in terms of access lines
- U S WEST has the fewest urban lines and the most rural lines
- U S WEST serves less than 50 access lines per square mile
- U S WEST owns and operates more rural switches than any RBOC
- U S WEST switches serve fewer access lines than other RBOCs
- U S WEST receives less revenue per switch than any RBOC
- U S WEST has a greater percentage of its customers extreme distances from its central offices than any RBOC
- U S WEST has a greater percentage of its customers in ultra low density areas than any RBOC

Guiding Principles

1. **Overall objective is that, to the greatest extent possible, the competitive marketplace should be relied upon to define and provide universal service at reasonable rates.**

2. **Existing rates of incumbent telcos must be re-balanced for services such as business, toll, access and residential service.**

3. **If particular customers or groups of customers are to receive support, support must be explicit rather than implicit.**

4. **Any subsidies should be targeted to the appropriate low-income individuals, to social programs and to eligible companies serving customers in high cost areas.**

5. **High-cost support should be targeted to the smallest geographical area reasonably identifiable.**

6. **Federal and state universal service funds should be complementary.**

7. **Payments into the fund should be explicit, broad-based and competitively neutral.**

Universal Service Definition

A core set of services which are ubiquitously available to everyone who wants them. Explicit funding mechanisms should be put in place to support the provision of these services where the competitive market fails to provide them.

- ✔ One party service
- ✔ Voice Grade
- ✔ Touchtone
- ✔ Access to Telephone Relay Systems
- ✔ Access to Directory Assistance
- ✔ Access to interexchange carriers
- ✔ Listings
- ✔ Access to emergency services (such as 911/E911)

Criteria to expand the definition: The marketplace and advancements in technology will continue to impact the definition of universal service, i.e. if everyone is better off receiving services that have already reached a high penetration level due to market demands, the definition of universal service should be revised.

Low Income Programs
Lifeline/Linkup
Telephone Relay System
Explicit High Cost Fund
Funding for Unserved
Schools, Libraries
Rural Health Care

Implicit Support to All Residential Customers
Rate Averaging
Interproduct Support
- ***Access/Toll to Local***
- ***Business to Res Local***

Other - Capital Rec, Directory

Today - @$1B/ Tomorrow ?

$@4 - 20B

Low Income, TRS, High Cost, Unserved, Education, Rural Health Care and Implicit Support to Residential customers all come under the Universal Service Umbrella.

Actions Necessary to Preserve Universal Service

1. **Rate Rebalance**
   - ✔Pricing flexibility - Allow competitors and incumbents to compete
   - ✔Prices more closely aligned with costs and market conditions - Residence rates must be allowed to cover costs.

2. **Properly Structure Interconnection Charges**
   - ✔Interconnectors must pay their fair share of common, shared and universal service support costs.

3. **Target Support**
   - ✔Low Income
   - ✔High Cost
   - ✔TRS

4. **Restructure Funding**
   - ✔Make all support explicit
   - ✔Reform existing support mechanisms where necessary

5. **Establish Transitional Universal Service Fund Until Rate Rebalancing Achieved**

All Rates Are Linked:

- If new Interconnecting Carriers don't pay fair share

- Remaining retail customers pay more
  -Increasingly rural and less lucrative accounts

(OR)

- Universal Service Funding must be increased

Funding Principles

- ✔ **Universal Service support for low income customers, social programs such as TRS, and high cost to serve customers is a social goal and should come from general fund revenues. While this is the ideal scenario, political reality and the Telecommunications Act require an alternative solution**

- ✔ **Everyone benefits from the ubiquity of the network and everyone should contribute to its viability**

- ✔ **Funding should be broadly based and competitively neutral**
  - **-Broad base will reduce disparities among competitors**
  - **-Broad base will lower the surcharge, reducing the burden on any one group of customers**

- ✔ **USF charge should be levied on retail services only**

- ✔ **USF charge should be recovered from the end user customer**

Funding Should Be Broadly Based

- ✔ **Broad base will reduce disparities among competitors**
- ✔ **A USF charge should apply to services or products provided by, among others, the local exchange companies; interexchange carriers; mobile telephone and radio communications companies (including cellular, PCN, and radio common carriers); on-line services; cable companies providing telecommunications services; competitive access providers; resellers of telecommunications; telecommunications customers of private networks; etc.**

Broad Support for an End User Retail Revenue Charge

As a competitively neutral mechanism to support universal service, GTE proposes a single uniform surcharge applied to all end user transactions... If as GTE proposes, the Federal plan is based on the entire "core" service on a non-jurisdictional basis, and used to fund offsetting reductions in both state and interstate rates, then the basis for funding should be all end-user retail revenue, both state and interstate. This approach will provide the largest possible funding base, the lowest possible "rate" for the surcharge, and hence the least distortion in customer behavior

GTE Initial Comments p.16-17

A surcharge on all retail telecommunications services, both interstate and intrastste, creates a fair, simple and efficient recovery mechanism

AT&T Initial Comments p. 8

The easiest method to make support funding explicit is to establish a surcharge that is to be assessed by carriers to their interstate retail telecommunications service customers. This surcharge would be an explicit charge stated on a customer's bill and would be a set percentage of the interstate amount billed.

Southwestern Bell Initial Comments p.19

All providers of telecommunications services, both facilities based and resellers , should be required to contribute to the various support mechanisms. This would include at minimum, exchange carriers, interexchange carriers, competitive access providers, competitive local exchange carriers, commercial mobile radio service providers, microwave/satellite based providers (when used for telecommunications services), VDT providers and cable television providers (when their facilities are used to provide telecommunications services), and providers of transmission components of information services... Funding should be based on annual interstate revenues associated with retail (i.e., end-user) transactions... Collection of the funds should be through a fixed surcharge applied to all retail transactions included in the funding base.

USTA Initial Comments pp. 23-25

Calculation of Surcharge Example

$15B Fund Size (High Cost and Education)

$176.2B Total Retail Revenues = ***8.5% USF Charge***

(Source: North American Telecommunications Association "Telecommunications Market Review and Forecast")

The broader the base the smaller the USF charge

Retail USF Surcharge Superior to Other Alternatives

Net of Payments Made to Other Carriers is Not Competitively Neutral

Retail Option

		Assessment On
Existing Provider:		
Imputed Access Cost	$ 50	
Additional Support	50	
Total Retail Revenues	$100	$100
Access Sold to New Entrant	$ 50	
Total Assessment Based On		$100

Other Provider:		
Access Bought from Existing Provider	$ 50	
Revenues above cost	50	
Total Retail Revenues	$100	$100
Total Assessment Based On		$100

Both Providers are responsible for the assessment on $100 of retail revenues. No revenues are assessed twice.

Net of Payments Made to Other Carriers

		Assessment On
Existing Provider:		
Imputed Access Cost	$ 50	
Additional Support	50	
Total Retail Revenues	$100	$100
Access Sold to New Entrant	$ 50	50
Total Assessment Based On		$150

Other Provider:		
Access Bought from Existing Provider	$ 50	
Revenues above cost	50	50
Total Retail Revenues	$100	
Total Assessment Base On		$ 50

The existing provider is responsible for three times as much assessment, on revenues which are already providing support to universal service.

The TRS Funding Mechanism with Some Modifications is a Good Starting Point for Building a USF Mechanisms

Modifications Should Include:

- ✔ ***Broaden the funding base***
- ✔ ***Mandate cost recovery through universal service charge on end user customers' bill***
- ✔ ***Assess universal service charge on retail revenues, not gross revenues***

High Cost

- ✔ Support needs to be explicit
- ✔ Support needs to be targeted
- ✔ Should only go to eligible carriers
- ✔ Should be competitively neutral

Need to Target High Cost Support to Very Small Geographic Units

- Rural Community wire center with 1,000 Lines
- 800 Lines in Town at $20/Mo. Average Cost
- 200 Lines on Outlying Farms at $200/Mo.
- Funding Benchmark at $30/Mo

- Universal Service Fund Calculation

  Wire Center:

  Average Cost: 800 Lines X $20/Line = $16,000

  200 Lines X $200/Line = $40,000

  Total Cost = $56,000

  Average Cost = $56/Line/Mo

  Universal Service Funding = $56 - $30 = $26/Line/Mo

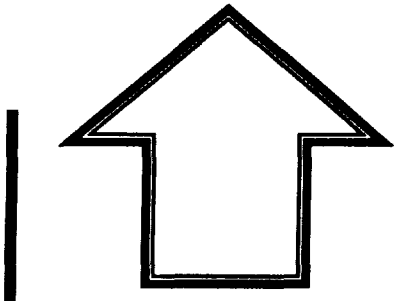
  Census Block Targeting:

  Town Customers: Cost $20/Month - No Benchmark Funding

  Farm Customer: $200 Cost - $30 Benchmark = $170/line

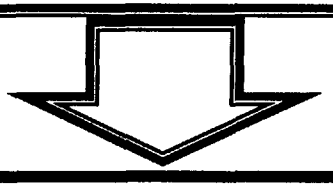
U S WEST's Census Block Model better targets high cost funding in a competitive environment. Wire Center targeting could result in new entrants receiving $6 more than cost for providing service in towns. Also there would be no incentive for new entrants to provide service to the $200 outlying farm customers because they would only receive $26 in high cost funds resulting in a $144 support shortfall.

Benchmark Concept



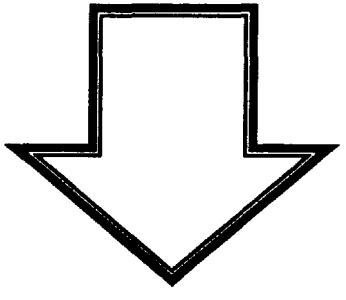
Federal High Cost Fund

Benchmark Rate - $30.00



State High Cost Fund

Benchmark Rate - $20.00



State
-Rates
-Implicit Supports (if any) Example: Bus to Res
-Averaging (Modest Deaveraging)
-Interconnection Charges
-Transitional U S Fund - until rates cover costs

Incumbent LECs are entitled to full recovery of costs incurred to meet historical and current universal service obligations. This recovery should be through a combination of federal and state price levels and explicit high cost funds.

BENCHMARK COST MODEL 2

South Dakota Overview Presentation

SPRINT, U S WEST
August 29, 1996

BENCHMARK COST MODEL 2

PURPOSE OF THE MODEL

- Identify High Cost CBGs
- Develop Benchmark Cost Range
  - Basic Residential Service
  - Efficient Design
  - State-of-the-Art Technology
- Allow Evaluation of Multiple Proposals for High-Cost Support Targeting
- Serve as a Basis of Critique of Studies of Unbundled Network Elements
- **Model Does Not**
  - Develop Actual or Embedded Costs
  - -- Develop a Hyper-Efficient, Low Cost, Unrealistic "Fantasy Network"
  - -- Develop a Carrier's Own Costs or Address All Market Factors That Should be Considered for Pricing, Therefore the Model should not be used for Pricing.

BENCHMARK COST MODEL 2

Public Review Process Established

- ✔ Sept. 1995 Joint Sponsors (Sprint, U S WEST, NYNEX, MCI) filed initial release
  - Filed in time for comment round in CC Docket 80-286
- ✔ Dec. 1995 filed data for 49 states
- ✔ Four Workshops held - 200 representatives from industry and government participated
- ✔ Comments provided in initial and reply comment rounds in CC Dockets 80-286 and 96-45.
- ✔ Based upon input received, Joint Sponsors proposed modifications in ex parte filings made 1/26/96 and 2/21/96.
- ✔ BCM2 filed 7/5/96 by U S WEST and Sprint is a result of this public process.

BENCHMARK COST MODEL 2

Misuse of Original BCM

- ✔ Original BCM was not designed to develop the total cost of basic telephone service
- ✔ Primary intent was to identify high cost CBGs for which explicit support might be required.
- ✔ Little attention was devoted to identifying costs in urban environments
- ✔ Costs components which would be similar between high-cost and low-cost areas were omitted (e.g. drop, pedestal, etc.)
- ✔ Studies which use the BCM for pricing (notably the Hatfield Study) are inappropriate for the reasons outlined above.
- ✔ BCM2 designed to enhance BCM - BCM2 reflects the total cost of providing service - BCM2 can serve as a critique of these other studies.

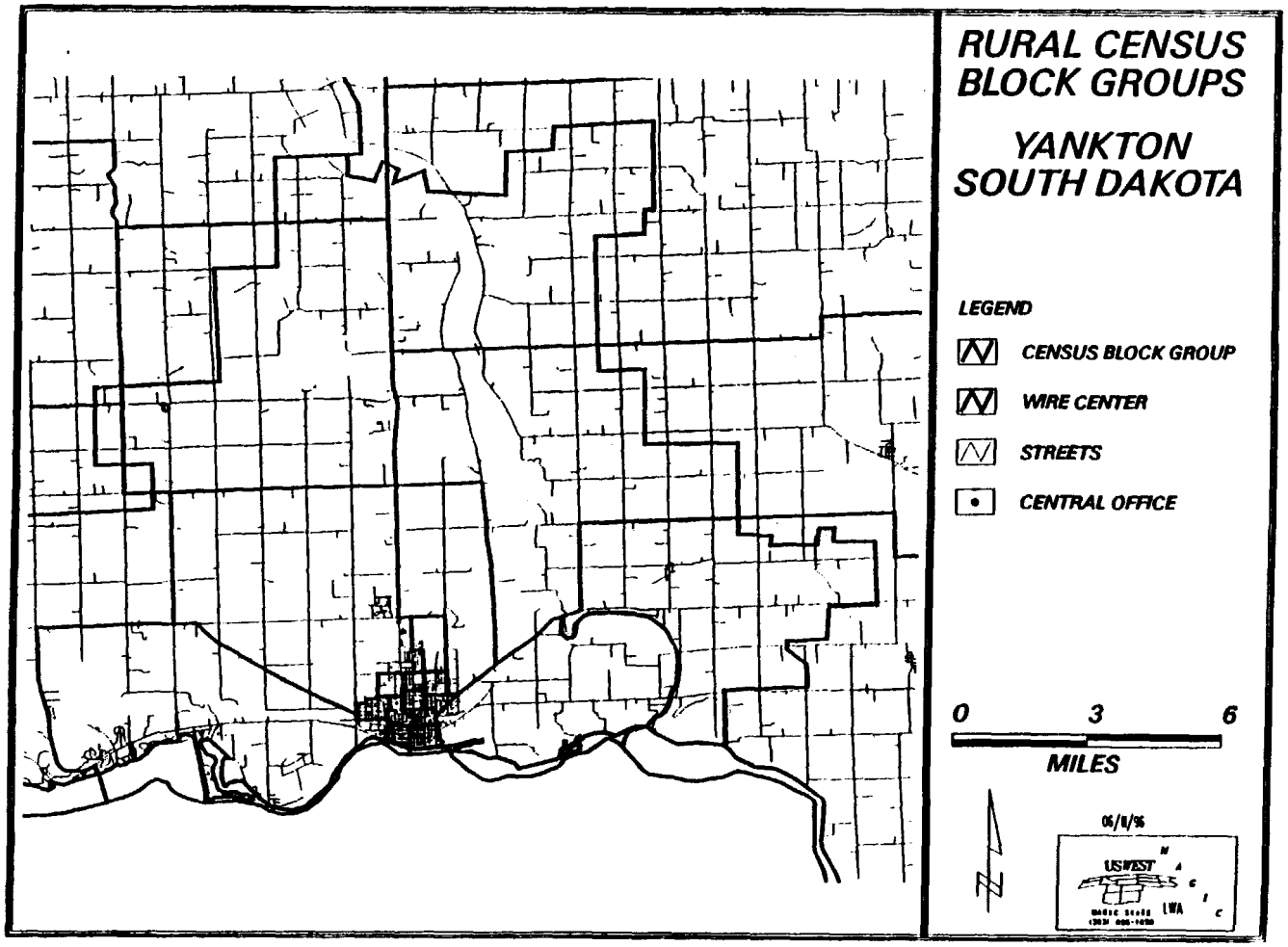
BENCHMARK COST MODEL 2

CENSUS BLOCK GROUPS (CBGs)

- Defined by U.S. Bureau of the Census
- 250 - 550 Housing Costs
- Ideal Size of 400 Units

BENCHMARK COST MODEL 2

CENSUS BLOCK GROUP TARGETING



SPRINT, U S WEST
August 29, 1996

BENCHMARK COST MODEL 2

Major Changes from BCM to BCM2:

✔ **General**

- BCM2 Analysis Done for all 50 States and District of Columbia. Will be run soon for Puerto Rico, Virgin Islands and Micronesia
- Includes all Cost Elements of Basic Telephone Service
- Better Identifies Costs in Urban Environments
- Includes all Types of Loops (Including Business) by CBG
- Enhancements Provide More Accuracy, Flexibility, and Faster Processing of the Model.

BENCHMARK COST MODEL 2

Major Changes from BCM to BCM2 (Con't):

✔ **Rural Area Specific BCM2 Enhancements**

- Sparsely Populated Areas Treated to Remove Areas with Little or No Population

- Loop Investments Capped to Reflect Emerging "Wireless Loop" Technology